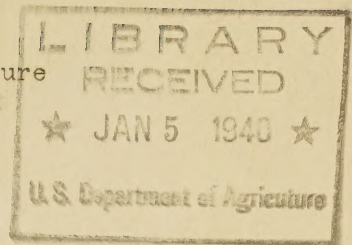


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United States Department of Agriculture
EXTENSION SERVICE
Washington, D. C.



Extension Service and
Bureau of Agricultural Economics, Cooperating

REPORT OF THE AMERICAN FARM ECONOMIC ASSOCIATION
COMMITTEE ON DEFINITIONS OF TERMS IN FARM MANAGEMENT 1/

The Committee on Definitions of Terms in Farm Management, in accordance with its instructions from the Association, has prepared a report, which is attached, on a suggested definition for each of a selected list of terms in common use by farm management workers. This report is largely a summary of the reactions of a considerable number of farm management workers during the last three years to a selected list of terms and definitions assembled by the Committee from a survey of farm management literature.

The report is divided into two parts. In the first part a suggested brief definition is given for each of 64 farm management terms, together with brief supplementary notes for a few of the terms. The second part consists of a suggested outline for a farm financial statement. The financial statement indicates, perhaps more clearly than the definitions, the concepts conveyed by the terms used in farm accounting. Furthermore, the suggested outline for a farm financial statement illustrates the possibility of presenting farm accounting information in a form which furnishes a basis for computing the various conventional measures of efficiency and financial success in the operation of farms. The itemization suggested would permit considerable flexibility in recombining items to obtain additional measures.

If the more condensed financial statements commonly presented could be preceded by a financial statement such as the one herein suggested, it would greatly facilitate comparison of the statements derived from two or more studies.

1/ The membership of the Committee included H. M. Dixon, Chairman; C. W. Crickman, Secretary; D. H. Doane, G. W. Forster, D. C. Mumford, O. C. Stine, R. H. Wilcox, and P. S. Williamson. The Committee was ably assisted by H. W. Hawthorne and N. R. Urquhart of the Bureau of Agricultural Economics and Extension Service, respectively, and by various other staff members of the Bureau of Agricultural Economics and Extension Service.

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RECOMMENDED FARM MANAGEMENT TERMS AND DEFINITIONS

A. General Terms

1. Farm management is the science that considers the organization and operation of farms from the point of view of efficiency and continuous profit.

Note: As a field of study it deals with the economy of the farm and with interrelationships between that economy and agricultural policy and programs. It includes the consideration of the most advantageous combination of resources used or contemplated for use in farming, the combination of productive enterprises and their efficient operation on individual farms, the formulation of farming programs for agricultural areas, and the effects upon the farm economy of public policies and programs.

2. Farm organization is the selection of land, labor, equipment, crops to be grown, livestock to be kept, and the proportions in which these elements are combined to form farming units.
3. Farm operation is the conducting of a farm business as a going concern.
4. Farm practice is a technique or method used in farm operations.
5. Farm business is the series of production and maintenance activities, and financial transactions performed in connection with the organization and operation of a farm.
6. Size of business is a measure of the magnitude of the business conducted on a farm in a given year.

Note: It is commonly measured in terms such as an important item of farm property, farm receipts, or man work units.

B. Terms Used in Connection with Farm Area

7. A farm is one or more tracts of land, including improvements, operated as a unit for agricultural production.

Note: A farm, for census purposes, is all the land which is directly farmed by one person, either by his own labor alone or with the assistance of members of his household, or hired employees. A ranch, nursery, greenhouse, hatchery, feed lot, or apiary is considered a farm. Establishments keeping furbearing animals or game, fish hatcheries, stockyards, parks,

etc., are not considered as farms unless combined with farm operations.

The enumerator was instructed not to report as a farm any tract of land of less than 3 acres, unless its agricultural products in 1934 were valued at \$250 or more.

A farm may consist of a single tract of land, or of a number of separate tracts. These several tracts may be held under different tenures, as when one tract is owned by the farmer and another tract is rented by him. When a landowner has one or more tenants, renters, croppers, or managers the land operated by each is considered a farm. Thus on a plantation the land operated by each "cropper" or tenant was reported as a separate farm. The land operated by the owner or manager by means of wage hands, was likewise reported as a separate farm. (1935 Census of Agriculture)

8. A farmstead is the part of the farm occupied by the operating set of buildings, adjacent yards, and lots.
9. Farm area is all the land in the farm.
10. Cropland is the part of the farm area upon which crops, summer fallow, and pasture are interchanged annually or at frequent intervals.
11. Tillable land is the part of the farm area which can be used for cultivated crops without additional clearing, draining, or irrigating.
12. Acres in crops is the area of land on which crops were either planted or harvested during the year and land in orchards or perennial crops, excluding acres of pasture, woods, fallow, or waste land.
13. Acres of crops is the total acreage of annual and perennial crops planted, growing, or harvested on the farm within a specified year, exclusive of pasture and woods, which may be larger than the acres in crops because of the production of more than one crop on a part or all of the cropland.

C. Terms Used in Connection with Farm Organization

14. A farm enterprise is a branch of the farm business.
15. Competitive enterprises are those which compete for the use of one or more of the farmer's productive resources and thus tend to limit each other in the farming system.

16. Supplementary enterprises are those which fit together without serious conflict in the use of the farmer's productive resources, thus providing a fuller or more continuous use of them.
17. Complementary enterprises are those which are contributive, one to the other, in the use of the farmer's productive resources.
18. System of farming is a form of organization, and methods of operation used on a farm.
19. Type of farming is a form of organization and methods of operation which are fairly uniform on a group of farms.
20. A type of farming area is one in which the physical and economic conditions related to agriculture are much the same throughout and which is characterized by having a dominant type of farming or a dominant pattern of types of farming.
21. Commercial farming is a system of farming in which the principal function is the production of farm products for sale.
22. Part-time farming is a combination of farming with other occupations in which the operator devotes a considerable part of his time to nonfarm occupations.

Note: Part-time farming is a combination of farming with other occupations in which the operator annually devotes 150 days or more at nonfarm occupations, and where the annual value of farm products does not exceed \$750. (1930 Census of Agriculture)

23. Self-sufficing farming is a system of farming in which the principal occupation of the operator is the production of farm products for use by the farm family.

Note: Self-sufficing farming is a system of farming in which the value of the farm products used by the family is 50 percent or more of the total value of all products of the farm. (1930 Census of Agriculture)

24. Diversified farming is a system of farming in which there are several important enterprises.

25. Specialized farming is a system of farming in which at least 40 percent of the income is normally derived from one enterprise.
26. Intensive farming is a system of farming in which a comparatively large amount of labor and working capital is used per acre of land.
27. Extensive farming is a system of farming in which a comparatively small amount of labor and working capital is used per acre of land.
28. A family farm is one which is operated entirely or largely with the labor of the operator and his family.

D. Terms Used in Connection with Farm Business Analysis

29. A farm budget is a systematically recorded schedule for the organization and operation of a farm together with a detailed statement of the anticipated income and expenditures for a specified period of time.
30. A farm financial budget is a written, detailed statement of the anticipated income and expenditures of a farm business for a specified period of time.
31. A farm management plan is a systematically recorded schedule for the organization and operation of a farm for a specified period of time.
32. A farm inventory is a list of the amount and value of all items of farm property as of a given date.
33. Farm capital is the value of the land with its permanent improvements ordinarily transferred with the title to the land, livestock, equipment, feed, other supplies, and cash to run the farm business.

Note: The Committee appreciates the fact that there is some difference of opinion regarding the handling of two items in farm capital: (1) The farm dwelling, and (2) cash to run the farm business. After making a careful study of this matter in view of recommendations from the States, we are of the opinion that from the standpoint of general procedure the dwelling and cash to run the farm business should be considered a part of farm capital. The Committee was influenced in making this decision by the fact that a majority of the States recommended this procedure and further by the fact that the dwelling is so closely associated with the farm business that in most cases the entire elimination of its value would produce greater error than does its inclusion. However, it is entirely possible that when farm accounting records are used as a basis for comparative analysis of the factors affecting farm income, some will find it more practicable to omit the value of the farm dwelling and cash to run the farm business.

34. Fixed capital is the value of the land with its permanent improvements ordinarily transferred with the title to the land.
35. Working capital is the value of the livestock, equipment, feed, other supplies, and cash to run the farm business.
36. Gross farm earnings is the sum of the year's sales, miscellaneous income, increase in inventory of crops, feeds, seeds, and livestock, and the value of living from the farm.
37. Farm receipts is the sum of the year's sales, miscellaneous income, and increase in inventory of crops, feeds, seeds, and livestock.
38. Total farm expenditures is the sum of the cash operating expenses, decrease in inventory of crops, feeds, seeds, and livestock, depreciation, value of unpaid family labor, and value of farm products furnished hired labor.
39. Farm expenses is the sum of the cash operating expenses, decrease in inventory of crops, feeds, seeds, and livestock, depreciation, and value of unpaid family labor.
40. Net farm earnings is the return, including the value of family living from the farm, for farm capital, and labor and management of the operator.

Note: It is gross farm earnings less total farm expenditures.

41. Net farm income is the return, excluding the value of family living from the farm, for farm capital, and labor and management of the operator.

Note: It is farm receipts less farm expenses.

42. Net family farm earnings is the return, including the value of family living from the farm, for farm capital, labor and management of the operator, and labor of unpaid members of the operator's family.

Note: It is net farm earnings plus the value of unpaid family labor.

43. Net family farm income is the return, excluding the value of family living from the farm, for farm capital, labor and management of the operator, and labor of unpaid members of the operator's family.

Note: It is net farm income plus the value of unpaid family labor.

44. Operator's labor earnings is the return, including the value of family living from the farm, for the operator's labor and management.

Note: It is net farm earnings less an interest charge for use of farm capital.

45. Operator's labor income is the return, excluding the value of family living from the farm, for the operator's labor and management.

Note: It is net farm income less an interest charge for use of farm capital.

46. Family labor earnings is the return, including the value of family living from the farm, for operator's labor and management and labor of unpaid members of the operator's family.

Note: It is the operator's labor earnings plus the value of unpaid family labor.

47. Family labor income is the return, excluding the value of family living from the farm, for operator's labor and management and labor of unpaid members of the operator's family.

Note: It is the operator's labor income plus the value of unpaid family labor.

48. Value of operator's labor is the farmer's estimate of what he would have to pay another person to do the physical labor performed by him.

Note: When the operator's labor is valued for a deduction from net farm earnings to get returns for capital and management, the value includes family living from the farm.

49. Unpaid family labor is labor used in conducting the farm business which is furnished by the members of the farm family, other than the operator, for which no direct wage is paid.

Note: The value is determined on the basis of the amount of additional labor that the operator would have to hire at current wages to carry on the same size business had the family labor not been available.

50. Interest charge for use of farm capital is an estimated charge for the use of the farm capital based on the current rate on well-secured farm mortgage loans.

51. Farm profits are the returns to the operator for management.

52. Family living from the farm is the farm value of farm grown food, fuel, and other products used by the family plus the value of the use of the farm dwelling.
53. Board of hired labor is the additional cash expense for family living incurred on account of hired laborers living with the farm family.
54. Depreciation is the decrease in value of farm capital resulting from age and use.
55. Appreciation is the increase in value of farm capital.
56. Man equivalent is the average amount of work accomplished by one man in 12 months at ordinary farm tasks under average conditions and when the usual equipment is used.
57. Man work unit is the average amount of work accomplished by one man in 10 hours at ordinary productive farm tasks under average conditions and when the usual equipment is used.
58. Unit requirements for farm operations are the quantities of, or the expenditures for, the factors of production used under given conditions for a unit of farm production, for a period of farm maintenance, or for the operation of a unit of farm power.
59. Standard requirements for farm operations are reasonably attainable goals of achievement in the quantities of, or the expenditures for, the factors of production used under given conditions for a unit of farm production, for a period of farm maintenance, or for the operation of a unit of farm power.
60. An animal unit is one mature horse or cow or the equivalent in other livestock based upon appropriate conversion factors.
- Note: This unit is normally determined by the amount of feed consumed and manure produced.
61. Feed unit is one pound of corn, or its equivalent in other feeds, fed under average farm conditions.
62. Crop index is a comparative measure of the yields of one or more crops on a given farm or group of farms expressed as a percentage of some specified base.

Note: In combining the crops individual yields may be weighted by

acres, man work units, or some other measure of relative importance. The base yields used may be average for the Nation, State, County, locality, or group of farms included in the study for any given period. The method of weighting and the base yields should be described in defining the index.

63. Livestock index is a comparative measure of production or returns per animal or unit of feed fed of one or more classes of livestock on a given farm or group of farms expressed as a percentage of some specified base.

Note: The base rates of production or returns per animal or unit of feed fed may be the average for the Nation, State, County, locality, or group of farms included in the study for any given period. The method of weighting and the base should be described in defining the index.

64. Diversity index is a measure of the relationship of the number and size of farm enterprises to the entire farm business.

Note: When the enterprises on a farm are all equally important or of equal magnitude the number of these enterprises may be used as the measure of diversity but if the enterprises on a farm are of unequal magnitude the degree of diversity may be determined as follows: First, find the sum of the magnitude of all the enterprises (in most cases the receipts or man work units from an enterprise may be taken as its magnitude), divide the magnitude of each enterprise by the sum above mentioned, square each of the quotients, and divide unity by the sum of these squares. The result is the diversity index.

SUGGESTED OUTLINE FOR A FARM FINANCIAL STATEMENT

For the year ending _____

Farm Capital

	Purchases : during year:	Sold dur- : ing year:	Beginning : of year*:	End of : year*
1. Land			\$	\$
2. Operator's dwelling				
3. Tenant dwellings				
4. Other bldgs. and improvements ..				
5. Machinery and equipment				
6. Crops, feeds, and seeds				
7. Horses and mules				
8. Dairy cattle				
9. Beef cattle				
10. Hogs				
11. Sheep				
12. Poultry				
13.				
14. Cash to run the farm				
15. Total farm capital			\$	\$

Gross Farm Earnings

16. Crop receipts:				
17. Wheat			\$	
18.				
19. Other crops				
20. Livestock and livestock products receipts:				
21. Horses and mules				
22. Dairy cattle				
23. Dairy products				
24. Beef cattle				
25. Hogs				
26. Sheep				
27. Wool				
28. Poultry				
29. Eggs				
30.				
31. Receipts for work off the farm				
32. Receipts from real estate of operating unit rented out				
33. Receipts from machinery and equipment hired out				
34. Miscellaneous farm receipts				
35. Total cash farm receipts			\$	
36. Increase in inventory of crops, feeds, seeds, and livestock				
37. Total farm receipts			\$	
38. Living from the farm:	Operator:	Hired labor:		
39. Fruits, vegetables and other crops				
40. Dairy products				
41. Eggs				
42. Poultry				
43. Hogs				
44. Cattle				
45. Sheep				
46. Fuel				
47. Use of dwelling				
48. Total gross farm earnings			\$	

* Farm real estate should be valued as a unit and the total value of items 1, 2, 3 and 4 should not be different from the unit value.

SUGGESTED OUTLINE FOR A FARM FINANCIAL STATEMENT (Concluded)

Farm Expenditures

49.	Cash operating expenses:	
50.	Hired labor (months_____)	\$_____
51.	Board of hired labor (months_____)	_____
52.	Hired power and machinery	_____
53.	Feeds	_____
54.	Other livestock expense	_____
55.	Lime and fertilizer	_____
56.	Seeds	_____
57.	Other crop expense	_____
58.	Livestock bought:	
59.	Dairy cows	_____
60.	Beef cattle	_____
61.	Hogs	_____
62.	Sheep	_____
63.	Poultry.....	_____
64.	_____
65.	Fuel, electricity, and lubricants	_____
66.	Repairs, license and insurance for machinery and equipment	_____
67.	Repairs for operator's dwelling	_____
68.	Repairs for other buildings and improvements	_____
69.	Taxes	_____
70.	Insurance for operator's dwelling	_____
71.	Insurance for other buildings and improvements	_____
72.	Miscellaneous	_____
73.	Total cash farm expenses	\$_____
74.	Decrease in inventory of crops, feeds, seeds and livestock	_____
75.	Depreciation	_____
76.	Unpaid family labor (except operator, months_____)	_____
77.	Total farm expense	\$_____
78.	Farm products and dwellings furnished hired labor	_____
79.	Total farm expenditures	\$_____
80.	Net cash farm income	(Line 35 minus line 73)
81.	Net farm income	(Line 37 minus line 77)
82.	Net farm earnings	(Line 48 minus line 79)
83.	Interest on farm capital	_____
84.	Operator's labor income	(Line 81 minus line 83)
85.	Operator's labor earnings	(Line 82 minus line 83)
86.	Family labor income	(Line 84 plus line 76)
87.	Family labor earnings	(Line 85 plus line 76)
88.	Value of operator's labor (months_____)	_____
89.	Returns for farm capital and management ...	(Line 81 minus line 88)
90.	Percent return on farm capital	(Line 89 ÷ line 14)

NON-FARM NET CASH INCOME OF THE FARM FAMILY:

1.	Non-farm business activities	\$_____
2.	Trapping, hunting, fishing, etc.	_____
3.	Other farm property	_____
4.	Non-farm property	_____
5.	Forest and mineral products	_____
6.	Dividends, interest, pensions, royalties, etc.	_____
7.	Relief grants	_____
INTEREST PAID OR PAYABLE ON FARM INDEBTEDNESS:		
8.	Real estate	_____
9.	Other	_____

